

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 AID-05 CIAE-00
COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02
OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 AGRE-00
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P 130406Z DEC 76
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 3832
INFO AMEMBASSY PORT MORESBY PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/13/77
TAGS: EAID, EFIN
SUBJECT: PROPOSED ADB LOAN FOR EAST SEPIK RURAL DEVELOPMENT
PROJECT (PAPUA NEW GUINEA)

SUMMARY: ADB MANAGEMENT PROPOSES \$7.74 MILLION EQUIVALENT
LOAN FROM SPECIAL FUNDS RESOURCES TO GOVERNMENT OF PAPUA
NEW GUINEA TO FINANCE FOREX COST OF ESTABLISHING AN INTEGRATED
RURAL DEVELOPMENT PROJECT IN EAST SEPIK PROVINCE
COMPOSED OF THREE KEY INITIATIVES--INTENSIFICATION OF
EXISTING PRODUCTION, INTRODUCTION OF NEW AGRICULTURAL
VENTURES AND DEVELOPMENT OF PHYSICAL AND SOCIAL INFRASTRUCTURE.
PROJECT COMPRISES SIX SUB-PROJECTS AND AIMS AT SOCIO-ECONOMIC
DEVELOPMENT OF EAST SEPIK PROVINCE WHICH HAS GOOD POTENTIAL
FOR DEVELOPMENT BUT UP TO NOW HAS REMAINED RELATIVELY
UNDEVELOPED. USADB RECOMMENDS FAVORABLE NAC ACTION.
END SUMMARY.

1. ADB DOC R127-76 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHES ADDRESSEES DECEMBER 6. BOARD CONSIDERATION
SCHEDULED DECEMBER 21.

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2. ADB MANAGEMENT PROPOSING \$7.74 MILLION LOAN FROM

SPECIAL FUNDS RESOURCES TO GOVERNMENT OF PAPUA NEW GUINEA. PROCEEDS WILL FINANCE FOREX COST OF INTEGRATED AREA DEVELOPMENT IN EAST SEPIK PROVINCE. PROJECT COMPRISES (A) DEVELOPMENT OF GAVIEN LAND SETTLEMENT SCHEME; (B) ESTABLISHMENT OF A BUFFALO BREEDING HERD AND SMALL-HOLDER BUFFALO FARMS ON POORLY DRAINED GRASSLANDS; (C) PROVISIONS OF FACILITIES TO PROMOTE INLAND FISHING ON SEPIK RIVER; (D) INTENSIFICATION OF CROP PRODUCTION ON EXISTING FARMS; (E) ESTABLISHMENT OF AGRICULTURAL RESEARCH NETWORK; AND (F) STRENGTHENING OF FACILITIES FOR TEACHING OF AGRICULTURE AND NUTRITION IN SCHOOLS AND ESTABLISHMENT OF AN AGRICULTURAL COLLEGE. PROPOSED TERMS ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, 1 PERCENT SERVICE CHARGE. INDEPENDENT STATE OF PAPUA NEW GUINEA TO THE BORROWER AND DEPARTMENT OF PRIMARY INDUSTRY (DPI) AND DEPARTMENT OF EDUCATION (DDE) TO BE EXECUTING AGENCIES.

3. PAPUA NEW GUINEA (PNG) IS WELL ENDOWED WITH NATURAL RESOURCES AND HAS CONSIDERABLE POTENTIAL FOR DEVELOPMENT. HOWEVER, ADMINISTRATIVE AND ECONOMIC INFRASTRUCTURE HAS NOT BEEN SUFFICIENTLY DEVELOPED TO ALLOW FULL UTILIZATION OF EXISTING RESOURCES. AFTER SELF-GOVERNMENT WAS ACHIEVED IN 1975, EFFORTS WERE BEGUN TO REORIENT ECONOMY FROM PREVIOUS HEAVY DEPENDENCE ON AUSTRALIA FOR ADMINISTRATION OF ITS ADMINISTRATIVE, COMMERCIAL, MONETARY AND BANKING SYSTEMS. SINCE INDEPENDENCE IN 1975, THIS HAS BECOME GOVERNMENT'S MAIN OBJECTIVE.

4. GOVERNMENT HAS PUT CONSIDERABLE EMPHASIS ON SELF-RELIANT RURAL DEVELOPMENT, AS 90 PERCENT OF TOTAL POPULATION LIVE IN RURAL AREAS AND DEPEND ON AGRICULTURE AS MAIN SOURCE OF INCOME. AGRICULTURE IS PASSING THROUGH TRANSITIONAL PERIOD: FROM LARGELY SUBSISTENCE FARMING TO MARKET GARDENING AND CASH CROPPING, AND FROM DOMINANTLY FOREIGN CONTROLLED PLANTATION SECTOR TO INCREASING SMALL HOLDER INTEREST IN EXPORT PRODUCTION. PNG HAS FERTILE LAND RESOURCES, AS YET LOW POPULATION DENSITY, FAVORABLE GEO-CLIMATIC CONDITIONS, SIGNIFICANT FORESTRY AND FISHERY RESOURCES, AND FAIRLY ASSURED INTERNAL/ LIMITED OFFICIAL USE

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EXTERNAL MARKETING OUTLETS. MAIN CONSTRAINTS ARE SLOW RESPONSES OF AN ESSENTIALLY TRADITIONAL SOCIAL STRUCTURE AND LACK OF ADEQUATELY TRAINING AND EXPERIENCED MANPOWER.

5. EAST SEPIK REGION IS LOCATED IN NEW GUINEA COASTAL REGION. IT IS COUNTRY'S THIRD LARGEST PROVINCE, COVERING ABOUT 39,500 KM AND HAS ESTIMATED POPULATION OF

226,000, OF WHICH BOUT HALF ARE IN 0-15 YEARS AGE GROUP.
ALTHOUGH OF OF THE LEAST SEVELOPED PROVINCES IN PNG,
IT IS AT SAME TIME AN AREA WITH CONSIDERABLE AGRICULTURAL
POTENTIAL.

6. GOVERNMENT'S MAIN OBJECTIVES IN AGRICULTURAL DEVELOP-
MENT ARE INCREASED PRODUCTION OF IMPORT-SUBSTITUION AND
EXPORT-OREINTED CROPS AND, TO EXTENT PRACTICAL, REMOVAL
OF REGIONAL INBALANCES AND INCOME DISPARITIES. FOR EAST
SEPIK, OBJECTIVES ARE TO BE MET BY ATTEMPTS TO INCREASE
PRODUCTION OF EXPORT CROPS SUCH AS COFFEE, CACAO, COCONUT
AND RUBBER AND HARVESTING OF IMPORT-SUBSTITUION COM-
MODITIES SUCH AS RICE, FISH, BEEF AND VEGATBLES.
PROCINCE'S SOIL AND CLIMATIC CONDITIONS ARE SUITABLE FOR
PRODUCTION OF THESE AGRICULTURAL COMMOTIDIES, WHILE SEPIK
RIVER HAS GOOD FRESH WATER FISH RESOURCE.

7. IN AUGUST 1975, BANK APPROVED TECHNICAL ASSISTANCE
(TA) FOR TWO-PHASE STUDY: (A) AN INCEPTION STUDY TO
ESTABLISH POTENTIAL AND PRIORITY OF EAST SEPIK PROVINCE
AS AN AREA FOR DEVELOPMENT AND (B) DETAILED FEASIBILITY
ASSESSMENT OF PROJECT. PROJECT STRATEGY IS BASED ON
INTEGRATED APPROACH TO BENEFIT ALL SECTIONS OF POPULATION.
SPECIAL ATTENTION HAS BEEN PAID TO AGRICULTURAL RESEARCH
TO ENABLE BETTER EXPLOITATION OF FUTURE AGRICULTURAL
POTENTIAL OF PROCINCE, WHILE EDUCATION PROGRAM WILL HELP
IMPROVE EDUCATIONAL OPPORTUNITIES OF YOUNGER GENERATION.
PROJEC'S BENEFITS ARE INTENDED TO REACH ENTIRE
POPULATION BY (A) PROVIDING OPPORTUNITIES FOR FARMERS
RESIDING IN FOOTHILLS THROUGH INTENSIVE EDUCATION
SERVICES AND BY SETTING UP SMALL HOLDER LAND SETTLEMENT
SCHEME FOR NRE FARMERS; (B) ASSISTING INHABITANTS TO
UTILIZE GRASSLANDS BY UNDERTAKING BUFFALO FARMING FOR
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ACTION TRSE-00

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SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 AGRE-00
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P 130406Z DEC 76
FM AMEMBASSY MANILA
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FOR NAC AGENCIES

PRODUCTION OF BEEF, A MAJOR IMPORT COMMODITY; AND (C) PROVIDING POPULATION LIVING ALONG SEPIK RIVER WITH BETTER FACILITIES TO IMPROVE THEIR FISH CATCH AND ENCOURAGE OTHERS TO TAKE TO FISHING. BANK MISSION CONSIDERED POSSIBILITY OF PHASING INITIATION OF SIX SUB-PROJECTS. HOWEVER, IT WAS DECIDED THAT PHASING BEYOND THAT PROVIDED WITHIN EACH SUB-PROJECT WAS UNNECESSARY AS (A) SUB-PROJECTS WERE BEING IMPLEMENTED BY DIFFERENT DIVISIONS WITHIN DPI, WITH ONE BEING IMPLEMENTED BY DOE, (B) THEY WERE SMALL AND THEREFORE EASILY IMPLEMENTABLE, AND (C) EXPERIENCE GAINED IN SIMILAR WORLD BANK PROJECTS IN LAND SETTLEMENT AND LIVESTOCK AND IN SETTING UP AGRICULTURAL COLLEGES PREVIOUSLY WILL BE MOST USEFUL.

8. TOTAL COST OF PROJECT IS ESTABIMATED AT \$10.393 MILLION, OF WHICH \$7.57 IS FOREX COST TO BE FINANCED UNDER BANK LOAN AND \$2.823 MILLION EQUIVALENT IS LOCAL CURRENCY COST. PROPOSED LOAN ALSO INCLUDES \$170,000, COVERING FOREX COST TO EARLIER TA STUDY IN EXCESS OF \$100,000, WHICH WILL BE CHARGEABLE TO LOAN AND MAKE TOTAL LOAN AMOUNT \$7.74 MILLION. PNG WILL MEET LOCAL AND ALL RVWUENT COSTS.

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9. ALL PROCUREMENT OF GOODS OUT OF LOAN PROCEEDS FROM ELIGIBLE SOURCE COUNTRIES WILL BE ACCORDANCE WITH BANK'S GUIDELINES. SUPPLY CONTRACTS FOR EQUIPMENT/ MATERIALS OF \$100,000 OR MORE WILL BE AWARDED ON BASIS OF INTERNATIONAL COMPETITIVE BIDDING; SMALLER CONTRACTS ON BASIS OF BIDES OR QUOTIATIONS FROM REASONABLE NUMBER OF CONTRACTORS: SUPPLIERS FROM MORE THAN ONE ELIGIBLE SOURCE COUNTRY. CONTRACT FOR RUBBER AND CACAO PROCESSING FACTORY COMPLEX UNDER GAVIEN LAND SETTLEMENT SUB-PROJECT

WILL BE AWARDED ON TURNKEY BASIS THOUGH INTERNATIONAL COMPETITIVE BIDDING. OTHER CIVIL WORKS ARE OF SIMPLE NATURE AND SCATTERED THROUGHOUT PROVINCE. AS IT IS CONSIDERED UNLIKELY FOREIGN CONTRACTORS WOULD BE INTERESTED IN BIDDING, IT IS PROPOSED TO HAVE ALL THESE WORKS CARRIED OUT BY LOCAL CONTRACTORS, SELECTED ON BASIS OF COMPETITIVE BIDDING IN ACCORDANCE WITH PROCEDURES AND SPECIFICATIONS SATISFACTORY TO BANK. WORKS FOR SIMPLE BUILDINGS FOR AGRICULTURAL COLLEGE UNDER AGRICULTURE AND NUTRITION SUB-PROJECT WILL ALSO BE CARRIED OUT BY LOCAL CONTRACTORS. BREEDING BUFFALOES WILL BE PROCURED IN ACCORDANCE WITH SOUND LIVESTOCK PROCUREMENT PRACTICES.

10. CONSULTANTS WILL BE REQUIRED FOR VARIOUS ASPECTS OF SUB-PROJECTS CALLING FOR SKILLS NOT READILY AVAILABLE WITHIN COUNTRY. IT IS, THEREFORE, PROPOSED TO PROVIDE SUCH SERVICES IN FOLLOWING FIELDS: (A) GAVIEN LAND SETTLEMENT SUB-PROJECT: PRODUCT PROCESSING (2 YEARS) AND IMPLEMENTATION REVIEW (6 MAN-MONTHS); (B) BUFFALO FARMING SUB-PROJECT: IMPLEMENTATION REVIEW (4.5 MAN-MONTHS); (C) CROP INTENSIFICATION SUB-PROJECT: IMPLEMENTATION REVIEW (1 YEAR); (D) AGRICULTURAL RESEARCH SUB-PROJECT; RESEARCH AGRONOMIST (5 YEARS) AND QUARANTINE STATION MANAGEMENT (2 YEARS); (E) EDUCATION SUB-PROJECT: AGRICULTURE EDUCATION (3 YEARS), APPLIED NUTRITION (3 YEARS), FARM MANAGEMENT/SUPERINTENDENT (36 MAN MONTHS), MECHANICAL FOREMEN (36 MAN-MONTHS), AND IMPLEMENTATION REVIEW (3 MAN-MONTHS); AND (F) ONE ACCOUNTANT FOR (OVERALL) PROJECT MANAGER'S OFFICE (42 MAN-MONTHS). IT IS ALSO PROPOSED TO TRAIN 41 LOCAL OFFICERS FOR VARYING PERIODS OF 6-12 MONTHS EACH, OR TOTAL OF 35 LIMITED OFFICIAL USE

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MAN-YEARS OF FELLOWSHIP TRAINING. FELLOWSHIPS WILL ASSIST IN TRAINING LOCAL STAFF SO THEY CAN TAKE OVER RESPONSIBLE POSITIONS WHICH OTHERWISE WOULD BE HELD BY EXPATRIATES. TRAINEES WILL BE REQUIRED TO SERVE PROJECT FOR SPECIFIED TIME-PERIOD AFTER COMPLETION OF STUDIES.

11. DPI WILL BE EXECUTING AGENCY FOR ALL SUB-PROJECTS EXCEPT SCHOOLS EDUCATION COMPONENT WHICH DOE WILL EXECUTE. THERE WILL BE PROJECT MANAGEMENT COMMITTEE REPORTING TO MINISTER FOR PRIMARY INDUSTRY. COMMITTEE WILL HAVE SECRETARY FOR PRIMARY INDUSTRIES AS CHAIRMAN. MEMBERS WILL BE SECRETARIES FOR FINANCE, EDUCATION AND NATURAL RESOURCES, DIRECTOR OF NATIONAL WORKS AUTHORITY, MANAGING DIRECTOR OF PNG DEVELOPMENT BANK, EAST SEPIK PROVINCIAL COMMISSIONER OF THEIR NOMINEES, AND SENIOR DPI OFFICER

AS TECHNICAL DIRECTOR FOR PROJECT.

12. MAIN BENEFITS TO PNG ECONOMY WILL BE INCREASED AGRICULTURAL AND FISHERIES PRODUCTION RESULTING IN INCREASED EXPORTS AND REDUCED IMPORTS. INCREMENTAL PRODUCTION VALUE FROM PROJECT AT FULL DEVELOPMENT IS ESTIMATED AT \$5.4 MILLION PER YEAR. NON-QUANTIFIABLE BENEFITS WILL RESULTS FROM INCREASES IN LEVELS OF GENERAL EDUCATION, VOCATIONAL TRAINING AND COMMUNITY NUTRITION. PROJECT PAYS PARTICULAR ATTENTION TO POOREST SEGEMENTS OF POPULATION SUCH AS LANDLESS AND THOSE HAVING VERY LITTLE LAND, FARMERS ON POORLY DRAINED GRASSLANDS AND FISHERMEN ON SEPIK RIVER. AT COMPLETION, APPROXIMATELY 28,000 FAMILIES ARE ESTIMATED TO BE INVOLVED IN FOUR MARKET-ORIENTED SUB-PROJECTS, WHICH IS SIGNIFICANT PROPORTION OF PROVINCE'S TOTAL POPULATION.

13. PROJECT IS CONSIDERED TO BE TECHNICALLY FEASIBLE AND INSTITUTIONALLY AND ECONOMICALLY VIABLE. INTERNAL RATE OF RETURN OF PROJECT ELEMENTS WITH IMMEDIATE PRODUCTION IMPACT (EXCLUDING EDUCATION AND RESEARCH COMPONENTS) IS ESTIMATED AT 16 PERCENT. FINANCING WITH CONCESSIONAL RESOURCES IS JUSTIFIED BY BANK ON BASIS OF COUNTRY CONSIDERATIONS, LONG GESTATION PERIOD AND STRONG SOCIAL LIMITED OFFICIAL USE

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ORIENTATION OF PROJECT. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

14. REQUEST PORT MORESBY'S COMMENT FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PROGRAMS (PROJECTS), RURAL AREAS, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANILA19255
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: N/A
Errors: N/A
Film Number: D760458-0767
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Handling Restrictions: n/a
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Margaret P. Grafeld
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